

Task

Suppose the consumption function is $C = \$200 + 0.8Y$

- a. What is the amount of autonomous consumption?

Answer

Autonomous consumption is the minimum level of consumption that would still exist even if a consumer had absolutely no income ($Y=0$).

Let's take a look at the simple consumption function:

$$C = c_0 + c_1 Y^d$$

Where C - total consumption, c_0 - autonomous consumption ($c_0 > 0$), c_1 - marginal propensity to consume ($0 < c_1 < 1$), Y^d - disposable income.

So in our case the autonomous consumption equals \$200 ($c_0 = \$200 + 0,8*0$).